

# Resolution Foundation

BRIEFING

## Battle of the bands

*The prospect of council tax reform in Scotland  
and beyond*

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## Summary

*It is 25 years since the UK government announced its plan to abolish the community charge and introduce a new local tax for Scotland, England and Wales.<sup>[1]</sup> Since then, council tax has undergone almost no reform, and in Scotland and England is still based on property values from 1 April 1991.*

*But now change is afoot, at least in Scotland. Ahead of the May elections, and following on from the Commission on Local Tax Reform, the Scottish government has announced a package of limited reform. From April 2017, council tax will be increased for those in the higher bands (E-H) alongside increases in the generosity of the Council Tax Reduction scheme for lower income families.*

*Other parties are promising change too. The Scottish Labour and Green parties have proposed alternatives, with both supporting revaluations and taxes proportional to home values, and the Liberal Democrats and Conservatives are also expected to put forward plans for reform. In Wales too there are calls for further reform, with Plaid Cymru proposing a redistribution of council tax burdens.*

*This briefing note explores the current Scottish system as well as these recent proposals, and looks at the potential impacts of change on families with different levels of property wealth and of different incomes. It notes that:*

- » *The current council tax system represents a much higher rate of tax relative to property values for those in lower value homes. The highest value properties may be taxed at a rate of less than 0.1 per cent per year while the lowest value ones attract tax rates of over 1.5 per cent. All of the reforms considered in this note would improve the proportionality of the system.*
- » *Because those in higher band properties tend to have higher disposable incomes – with around three quarters of the poorer half of the population living in Band A-C homes – the reforms are also likely to be progressive to varying degrees.*
- » *The SNP plan is set to raise £100 million, with half of this net revenue increase coming from the richest fifth of households by income. The proposed tax increase exemption and extra child boost, both delivered via the Council Tax Reduction system, have a substantial positive effect. Indeed, some households with children will be better off as a result of the package of changes, though boosting take-up of Council Tax Reduction remains a key challenge.*
- » *Both the Labour and Green proposals would impose larger tax increases on those in the most expensive properties than the SNP plans. Unlike the SNP, Labour's approach is designed to be cost neutral and the majority of households would receive small tax cuts. The Green Party's plan would raise more revenue while also producing more losers. Both would undertake a welcome revaluation of property values, with estimates suggesting that the continued use of valuations from 1991 has left the majority of households in the wrong council tax band.*
- » *Increases in council tax might also be expected to lead to reductions in property prices (with the reverse true of decreases).*
- » *Given Wales's extra council tax band and Northern Ireland's rates system, reform in Scotland would leave England with the UK's most regressive structure of local property taxation.*

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[1] Hansard, [vol 188 cc401-30, Local Government Review \(England\), 21 March 1991](#)

## The structure of council tax has remained largely unchanged since its creation

Council tax was introduced in 1993-94 as a replacement to the unpopular Community Charge (or “Poll Tax”), though it used a much flatter structure with respect to property values than the purer domestic rates system which had previously been in place and which still exists in Northern Ireland.

### Council tax in Scotland and England uses eight bands based on values that are 25 years old

For the purposes of council tax, properties are placed into one of eight bands – from “A” to “H” – with Band A relating to the lowest value properties and Band H covering the highest value ones. However, these home values are estimated as they were on 1 April 1991 (with homes built since then placed into a band with similar properties).

Councils – including Scotland’s 32 local authorities – formally set the annual level of council tax for Band D, but the ratios between tax bills for different bands are fixed and in England and Scotland have remained unchanged since council tax’s introduction.<sup>[2]</sup> As shown in Table 1, those in Band A pay two thirds the amount that those in Band D pay, while those in the most expensive properties pay twice as much as those in Band D.

**Table 1: Council tax bands and ratios**

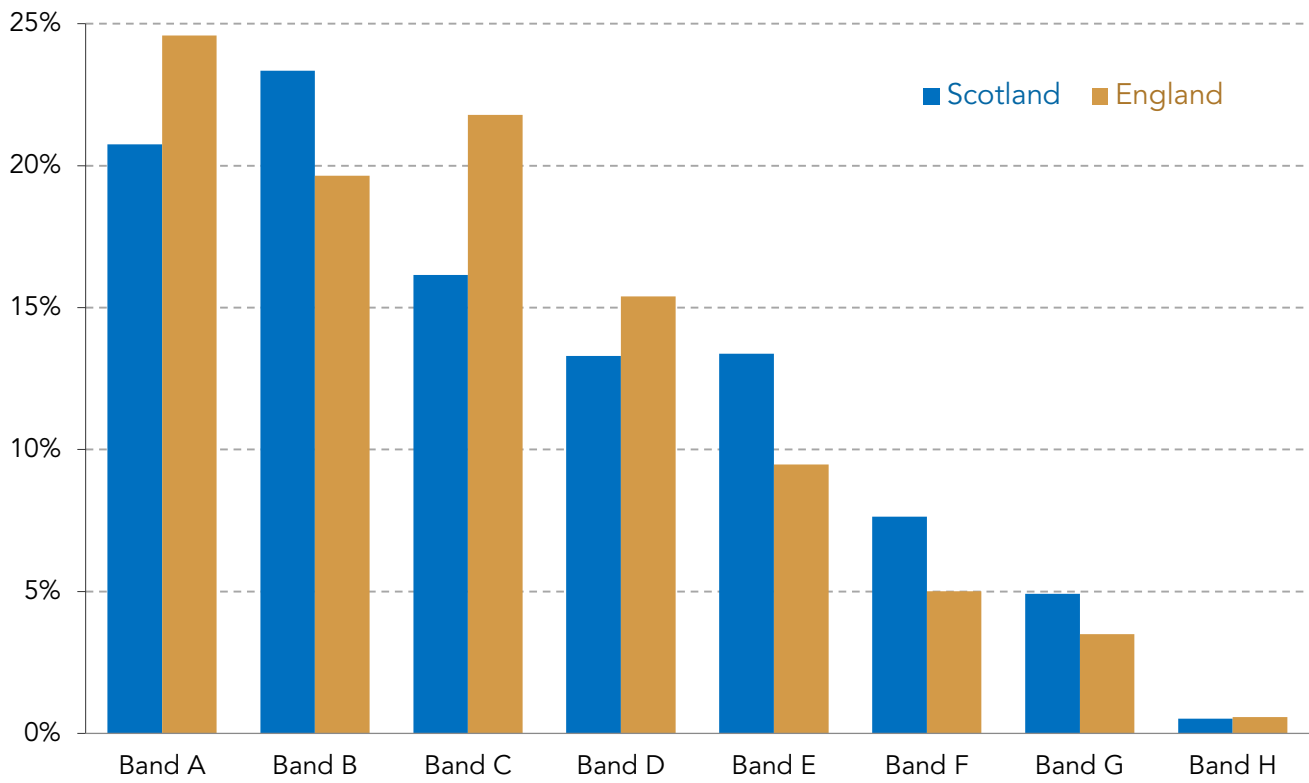
	A	B	C	D	E	F	G	H
Scottish property value (in 1991)	up to £27,000	£27,001 to £35,000	£35,001 to £45,000	£45,001 to £58,000	£58,001 to £80,000	£80,001 to £106,000	£106,001 to £212,000	£212,001 & above
English property value (in 1991)	up to £40,000	£40,001 to £52,000	£52,001 to £68,000	£68,001 to £88,000	£88,001 to £120,000	£120,001 to £160,000	£160,001 to £320,000	£320,001 & above
Fraction (vs Band D)	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9
Decimal (vs Band D)	0.67	0.78	0.89	1.00	1.22	1.44	1.67	2.00
Decimal (vs Band A)	1.00	1.17	1.33	1.50	1.83	2.17	2.50	3.00

Figure 1 details the distribution of households across council tax bands as of 2015, and shows that some bands include far more households than others. Of the roughly 2.4 million dwellings in Scotland, only 26 per cent (650,000) are in the top half of bands and only 0.5 per cent (13,000) are in Band H. In England, the distribution is even more bottom heavy, with only 19 per cent of homes (4.4 million) in the top half of bands – fewer than the 25 per cent (5.8 million) in Band A.

[2] Council tax is a devolved matter under the Scotland Act 1998.

Figure 1: Number of households by council tax band, September 2015

Proportion of all households



Source: Council Taxbase 2015, gov.uk, in England and Chargeable Dwellings, gov.scot, in Scotland

While the structure of council tax has remained unchanged in England and Scotland, there have been some changes in Wales and Northern Ireland. Wales introduced an extra band (“I”) for the most expensive properties, which were then required to pay 233 per cent rather than 200 per cent of the Band D rate. It also carried out a revaluation, with the tax now based on 1 April 2003 values.<sup>[3]</sup> In Northern Ireland, property values were reassessed in 2005.<sup>[4]</sup>

### Scotland’s council tax freeze has cut bills and local revenues

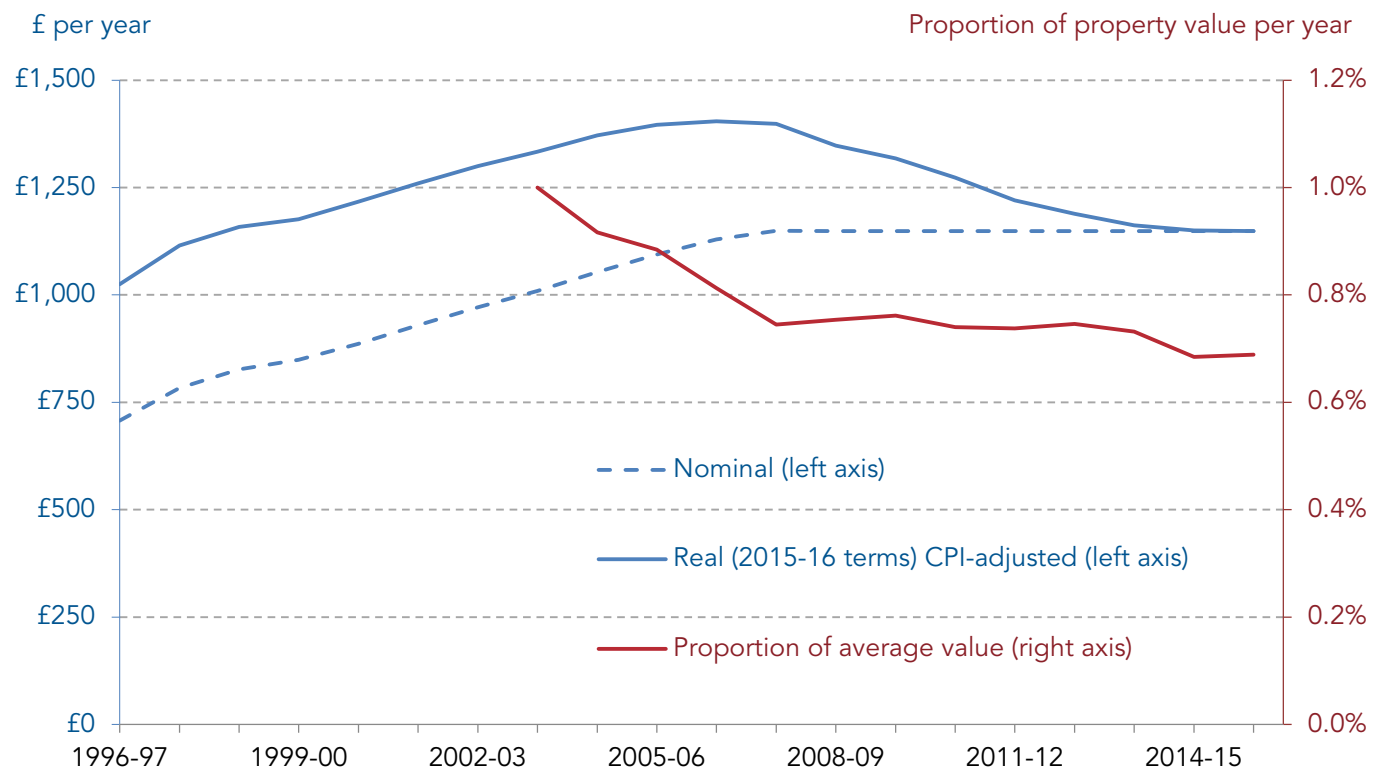
Although England and Scotland have made few changes to the *structure* of council tax, the *level* of the tax has changed substantially over time. Figure 2 sets out the picture for Scotland in the period since 1996-97. Levels rose in nominal and real terms until 2006-07, but a subsequent nominal freeze (from 2007-08) has reduced real tax levels. While councils notionally set their Band D rates, in practice Holyrood and Westminster have exerted considerable control by limiting increases. Given rising house prices, the burden of council tax relative to the average property value has also fallen substantially since 2003-04.

[3] Under the Local Government Act 2003 – which also introduced the ability to change the number of valuation bands – a revaluation in England was also planned, but this was subsequently cancelled.

[4] Northern Ireland never had the Community Charge and continues to operate the rates system. Households currently pay between 0.69 and 0.85 per cent of the capital value of their homes as valued on 1 January 2005, up to a maximum valuation of £400,000.

**Figure 2: The council tax freeze has reduced real levels of council tax in Scotland**

Average Band D council tax in Scotland



Source: RF analysis of gov.scot Council Tax data and Registers of Scotland house price data<sup>[5]</sup>

In the first ten years of council tax’s history, average Band D levels were generally slightly higher than in England but, from being roughly equal in 2002-03, the average Scottish Band D has fallen to 77 per cent of that in England. In 2015-16, the average Band D council tax bill in Scotland was £1,149 – compared to £1,484 in England and £1,328 in Wales.<sup>[6]</sup>

### Current council tax bands are not proportionate to property values

Figure 3 shows the average levels of the eight council tax bands, combined with information on the proportion of households in each band. This indicative illustration shows for example that the bottom 21 per cent of the (1991) Scottish property price distribution are in Band A and that a typical rate of council tax for them (excluding any reductions) is £766.

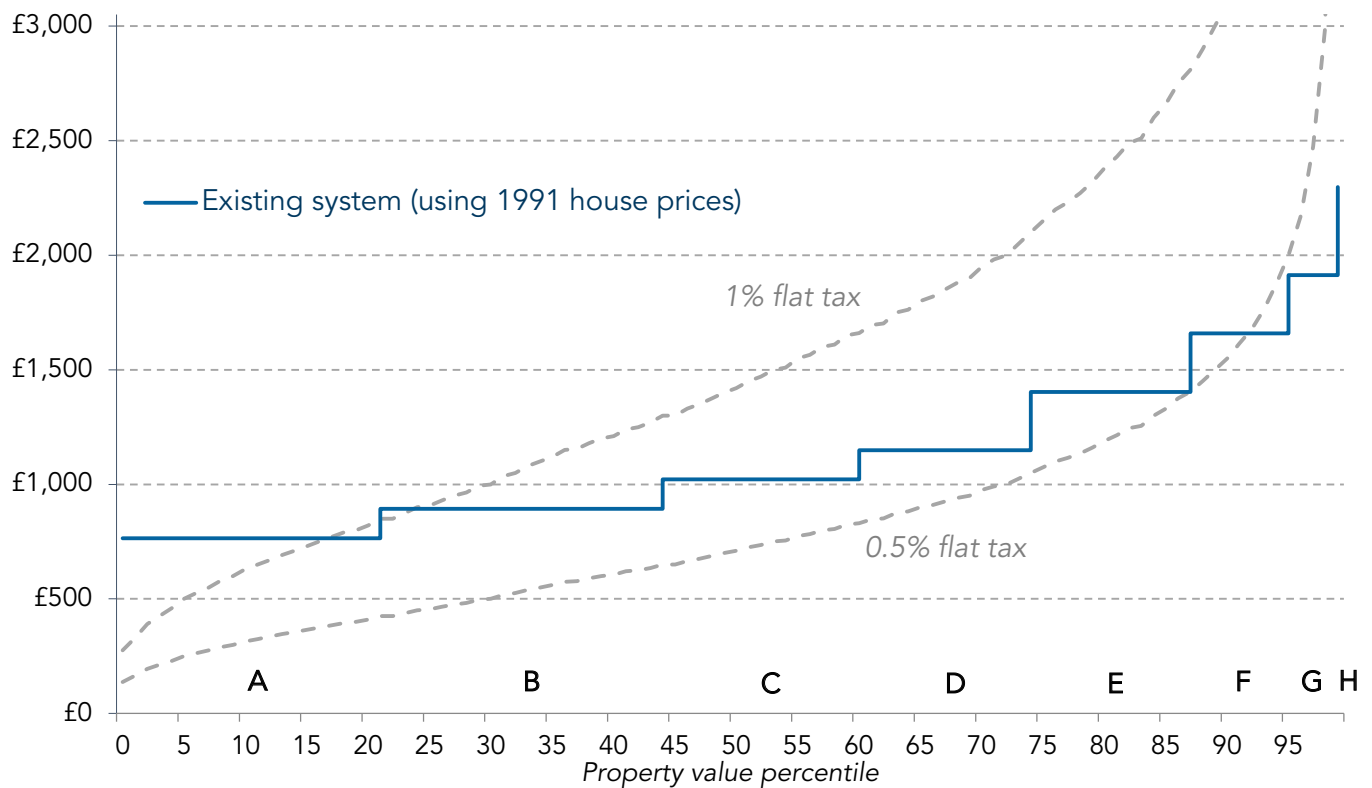
Although not shown, rates for a given band will vary by local authority. For example, Band A rates vary between £683 for a home in Eilean Siar (the lowest rate in Scotland) and £820 in Aberdeen City. These figures do not include any effects of the Council Tax Reduction system or other discounts – explored later – as these are not based on property values.

[5] 2015-16 average house price excludes March 2016. Registers of Scotland, [Quarterly house price statistics](#) and [Monthly house price statistics](#)

[6] DCLG, [Council tax levels set by local authorities in England 2015-16 \(Revised\)](#), July 2015; Statistics for Wales, [Council Tax Levels in Wales: 2016-17](#), March 2016

**Figure 3: Distribution of council tax bands in Scotland**

Council tax bill (excluding reductions)



Notes: Proportions in each band based on September 2015 gov.scot data (and 1991 values); council tax levels based on average Scottish Band D rate in 2015-16; property values used for flat tax levels based on September 2015 – February 2016 Registers of Scotland data which is Crown copyright<sup>[7]</sup>

The graph also shows what tax might be due if council tax was directly proportional to property value, such as at 0.5 per cent or 1 per cent of value.

The current system is regressive when viewed through this lens. Most properties currently pay somewhere between 0.5 per cent and 1 per cent of their value each year. However, the majority of homes in Band A likely pay over 1 per cent, while those in the top Bands G and H, and many in Band F, pay less than 0.5 per cent. A Scottish home worth £2.5 million would be taxed at a rate of under 0.1 per cent per year (even in the highest tax area). In contrast, one worth £45,000 would pay over 1.5 per cent per year excluding income-based tax reduction schemes (even in the lowest tax area).

As well as the disproportionality between bands, the large width of some bands – with a majority falling into bands A-C for example – as well as the fact that valuations are a quarter of a century out of date further weakens the link between property value and tax paid.

[7] The most recent six months of data on all residential transactions (above £20,000) have been used. This is Crown copyright material reproduced with the permission of Registers of Scotland.

Opinions differ as to whether council tax should be more akin to a pure property tax or more like the poll tax, with every adult contributing to local services.<sup>[8]</sup> But the theoretical case for proportionality is bolstered by the fact that primary residences do not attract VAT when built (or alternatively on annual ‘consumption’ of housing services); nor income tax on the return on investment provided by the imputed rental income; nor capital gains tax on increases in wealth. These are all reasons for taxing property and for doing so in at least a proportional manner. As Paul Johnson – Director of the IFS, writing for Resolution Foundation – has previously observed, “We wouldn’t charge a lower rate of VAT on a Ferrari than on a Nissan. It is not much more evident why we should charge a lower rate of council tax on a £2 million mansion than on a £50,000 flat.”<sup>[9]</sup>

In addition, there are separate economic arguments in favour of property or land taxes. For example, the OECD has argued that they are the “least economically harmful taxes”<sup>[10]</sup> while any apparent distributional benefit from lower property taxes might be reduced by a knock-on increase in rents and house prices (a consideration explored later in this note).

An improved, more proportional domestic property tax system (ideally based on up-to-date values) would therefore be welcome. Indeed it should be a priority for tax reformers.

### Those in higher bands tend to have higher incomes but targeted reliefs are important

It is also important to consider how the distribution of property taxes correlates with that of incomes. In addition to distributional concerns there are the more practical issue of people’s cash flows.

In fact, council tax burdens are correlated with levels of disposable income, even before accounting for council tax reductions. In Scotland, the average Band A household has an annual income after taxes and benefits of £20,000, rising to £27,000 for the average Band D household and almost £80,000 for Band H (see Appendix for more details).

This hides a more complex distribution of council tax bands across the income distribution, which is shown in Figure 4. Inevitably there are people with high incomes in low council tax bands, and vice versa, although those in the top income deciles are far more likely to be in the top council tax bands. Almost three quarters of the poorer half of the population live in Band A-C homes, compared to around 50 per cent of the richer half.

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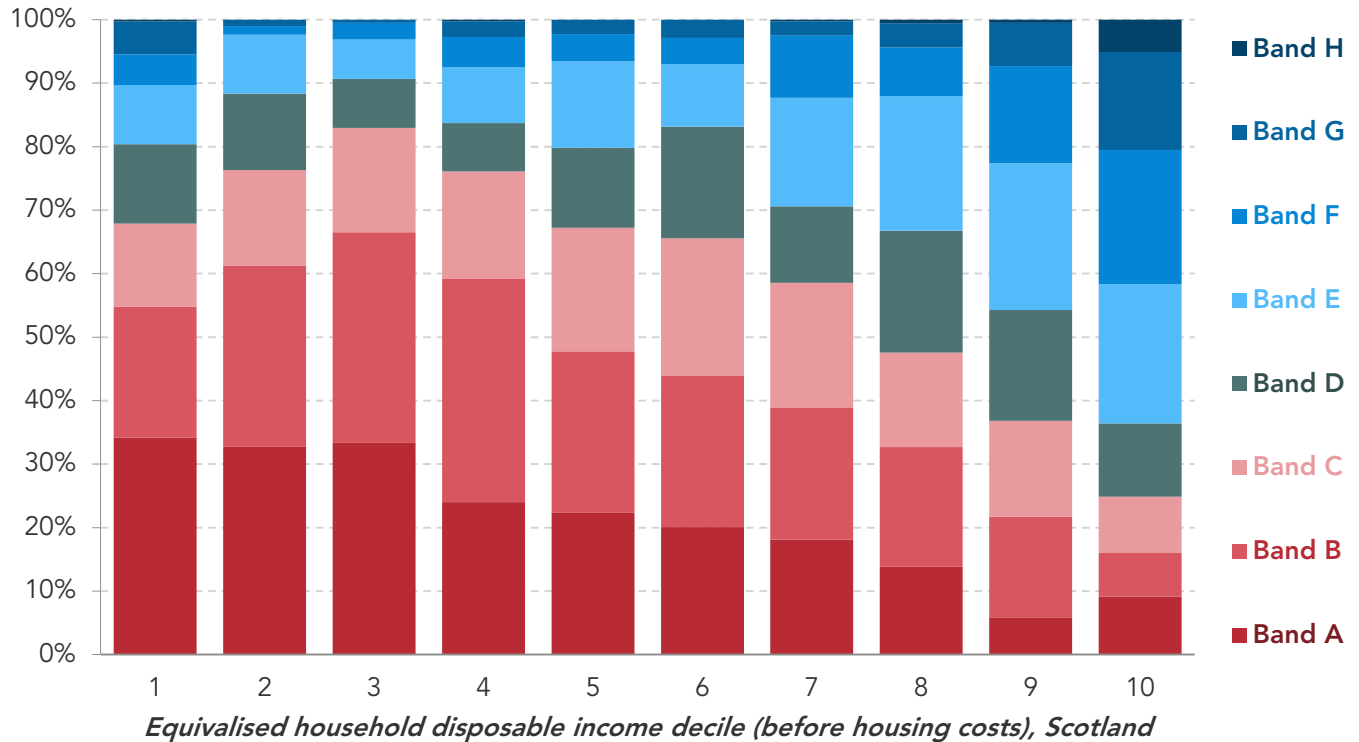
[8] See for example the rhetoric surrounding its introduction, Hansard, [vol 188 cc401-30, Local Government Review \(England\), 21 March 1991](#)

[9] P Johnson, [Fairer by design: efficient tax reform for those on low to middle incomes](#), Resolution Foundation, July 2012

[10] [Tax Policy Reform and Economic Growth](#), OECD Tax Policy Studies No. 20, 2010

**Figure 4: Scottish households with higher income tend to live in higher council tax bands, 2013-14**

*Proportion of homes in each council tax band*



Source: RF analysis of FRS 2013-14

It should be noted that those in the lowest income decile are more likely than those on slightly higher incomes to live in the top council tax bands. But those in the bottom decile of income in household surveys may not all be ‘poor’ – even before considering their levels of property wealth – instead they may simply have particularly volatile income or be drawing down their savings.<sup>[11]</sup>

Moreover, while council tax bands are not a perfect proxy for household income, they aren’t intended to be. There are good reasons for property taxes in their own right and income before housing costs is itself not a perfect indicator of who can most afford to pay taxes. The distributional concerns surrounding any recurring property tax are best addressed through the Council Tax Reduction system and indeed through the tax-benefit system as a whole.

Box 1 outlines the key discounts and reductions available in the current council tax system. While council tax itself is rightly based on property values (however loosely), these reductions are based on income and other family circumstances. Large numbers of people – around 500,000 families in Scotland<sup>[12]</sup> – benefit from Council Tax Reduction in particular. However, low take-up remains an important problem. In the most recent data, only around two thirds of those eligible for a reduction received it, with even lower take-up among pensioners and couples with children.<sup>[13]</sup> Council Tax Reduction will also remain outside of the new Universal Credit, adding complexity to

[11] See for example M Brewer and C O’Dea, *Measuring living standards with income and consumption: evidence from the UK*, ISER, March 2012 for discussion of low income as a measure of low material living standards.

[12] gov.scot, *Council Tax Reduction in Scotland, October to December 2015*

[13] DWP, *Income-related benefits: estimates of take-up: financial year 2009/10*, 2012. Estimates for Council Tax Reduction (previously Council Tax Benefit) are no longer published.



the benefits system.<sup>[14]</sup> And although Council Tax Reduction (also known as Council Tax Support in places) has so far been protected in Scotland and Wales, in England – where the design of support is devolved to local authorities – there have been substantial cuts for working-age people.

## i Box 1: Council tax discounts and reductions in Scotland

- » Council Tax Reduction is a means-tested negative tax. Some households have their council tax bill cancelled entirely. Others, earning more than a minimum allowance needed to live on, will pay 20 per cent of any income above that allowance in council tax until they no longer receive any reduction.<sup>[1]</sup> This allowance is based on family type, including an allowance per child, and there is a special disregard for a family's first bit of earned income. There is also a means-test with respect to savings, with a £16,000 limit.
- » Disability reductions can be applied where features of the house are due to disability.
- » The Second Adult Rebate is a separate discount for those who share their home with someone (other than their partner) who has a low income and is not liable for council tax.
- » Second homes and long-term empty homes receive a council tax discount of between 10 and 50 per cent (with the exact rate being at councils' discretion except for some specified cases).<sup>[2]</sup> Short-term empty homes may be exempted entirely (as may those where all residents are students).
- » Where only one adult lives in the dwelling, they receive the Single Person Discount of 25 per cent, regardless of income or property band.<sup>[3]</sup>

[1] gov.scot, *Council Tax Reduction in Scotland, 2014-15*

[2] In England and Wales councils can already reduce the discount below 10 per cent.

[3] The LGA [called](#) in March 2014 for the ability to reduce or remove the discount for those in homes rated Band E or above. They claim more than £200 million could be raised by ending this "wealthy bachelor discount" in England and Wales.

To conclude, the current council tax system in Scotland, and indeed across Great Britain, is undoubtedly in need of reform. Ideally, it would be more proportional to individual property values, it would not be based on valuations that are 25 years out of date (and counting), and it would have a strong income-based Council Tax Reduction system with higher take-up. Yet – given the factors that have preserved the status quo – it's also important that reform be pragmatic: a bird in the hand being worth two in the bush. These are some of the questions now being debated in Scotland.

## Proposals for reform in Scotland

Although the last UK general election featured proposals for a 'mansion tax' to increase property taxation for the very highest value properties (whether inside or outside the council tax system), and city regions have asked for more tax powers,<sup>[15]</sup> there is currently little concrete discussion of reforming the structure of council tax in England – despite the problems outlined above.<sup>[16]</sup>

Ahead of the 2016 Scottish and Welsh assembly elections, however, various parties have proposed reforms to local property taxation. In Wales, Plaid Cymru have proposed tax cuts for those in Bands A-D and increases for those in Bands E-I with the goal of taxes being equivalent to around 0.75 per cent of current property value.<sup>[17]</sup> But proposals for reform are most advanced in Scotland.

[14] D Finch, [Making the most of UC](#), Resolution Foundation, June 2015

[15] Core Cities, [New campaign calling for decentralised fiscal reform launched by Core Cities group, London Councils and Mayor of London](#), 2013

[16] Although the last parliament did see restrictions on discounts for second homes and empty properties.

[17] BBC News, [Plaid Cymru pledge to shake-up 'regressive' council tax](#), 23 March 2016

## The Commission on Local Tax Reform

The Commission on Local Tax Reform was created by the Scottish government in 2015 to look at alternatives to the current local tax system. Previously the Scottish debate had centred around the case for and against replacing council tax with a Local Income Tax but, following the Commission, the focus has now shifted towards retaining and improving Scotland's property taxation. One reason for this change may be a recognition of the potential problem of Scotland relying heavily on volatile income tax revenues as it accepts more fiscal risk,<sup>[18]</sup> as well as the broader economic case for property taxation.

The Commission concluded that “the present Council Tax system must end” but that “any reform of local tax has to continue to include recurrent tax on domestic property” and this should, “at the very least... be more progressive than the Council Tax” with both a more progressive structure and an improved form of income support.<sup>[19]</sup> It stated that property taxation would ideally be based on regularly updated valuations – presenting evidence that the majority of properties are now in the wrong band based on current values – while noting the political challenges involved.

However, their final report also argued that local government should have more flexibility to additionally broaden its tax base, and that if feasible this should include income taxes.

## The SNP's proposals

Given the Commission's conclusions, as well as councils' concerns over the impact of the council tax freeze, the Scottish government has announced a package of tax reforms to come into effect in April 2017. These are estimated to raise a net £100 million to be spent on school education.

These plans centre around council tax increases for the top four bands, delivered through increases in the ratios between the top bands and Band D, as set out in Table 2. They mean tax increases of 7 per cent for those in Band E, ranging to 23 per cent for those in Band H, with no effect on the three quarters of households who live in Band A-D homes.

**Table 2: The SNP's proposals for council tax reform**

	A	B	C	D	E	F	G	H
Scottish property value (in 1991)	up to £27,000	£27,001 to £35,000	£35,001 to £45,000	£45,001 to £58,000	£58,001 to £80,000	£80,001 to £106,000	£106,001 to £212,000	£212,001 & above
Existing ratio (vs Band D)	0.67	0.78	0.89	1.00	1.22	1.44	1.67	2.00
Proposed ratio (vs Band D)	no change				1.31	1.63	1.96	2.45
Existing ratio (vs Band A)	1.00	1.17	1.33	1.50	1.83	2.17	2.50	3.00
Proposed ratio (vs Band A)	no change				1.97	2.45	2.94	3.68
Council tax increase	-	-	-	-	7%	13%	18%	23%

To ameliorate these effects, and make the council tax system as a whole more progressive, there will also be:

- » an exemption from these increases for anyone below the median Scottish income for their household type (up to £25,000) – using the Council Tax Reduction system; and
- » a 25 per cent increase in the Council Tax Reduction system's per-child allowance.

In addition, their plan includes: allowing councils to end tax discounts for second homes;

- » consulting on allowing councils to tax land that is under development, vacant or derelict;

[18] See for example Figure 11.1, The Commission on Local Tax Reform, [Just Change: A New Approach to Local Taxation](#), December 2015

[19] The Commission on Local Tax Reform, [Just Change: A New Approach to Local Taxation](#), December 2015

- » attempting to boost the low pensioner take-up of Council Tax Reductions;
- » an end from 2017-18 of the council tax freeze, but with a 3 per cent cap on annual increases, while sustaining the current £70m that has funded the freeze; and
- » working on a way for councils to keep a share of future income tax revenue growth.

It is not clear whether these changes will have any impact on the costs charged by Scottish Water, which relate to council tax bands and the ratios between them.<sup>[20]</sup>

These reforms are, as the current government's policy, the focus of this note – with the final section exploring the impact of the core reforms on council tax's fairness and on families across the income distribution. But we also look at the alternatives that have so far been presented by other parties.

### The Scottish Labour Party's proposals

The Labour Party has presented proposals to replace council tax. Their alternative would use newly assessed values and tax properties based on:

- » a £450 flat charge; plus
- » 0.35 per cent of the property's value up to £180,000; plus
- » 0.9 per cent of the property's value above £180,000 (if applicable); and
- » a £3,000 cap, rising by up to 3 per cent a year after the first year.<sup>[21]</sup>

These reforms are intended to be revenue-neutral, with tax cuts for most households and increases for those in the highest value properties. The initial £3,000 cap would limit the tax increase – which might otherwise be extremely large for some – while a 3 per cent cap on annual local tax increases would be introduced. To provide further amelioration, additional (unspecified) protections would be introduced for asset rich but income poor households, and the existing system of reductions and exemptions would remain unchanged.

In addition to this revenue-neutral package, Labour would also give councils the power to tax vacant land (at up to 4 per cent of its value) and to charge a 'tourist tax' on hotel use.

### The Scottish Green Party's proposals

The Green Party would also replace council tax. As well as undertaking a revaluation (as they note, the current values are "older than Diet Irn-Bru"<sup>[22]</sup>) their 'Residential Property Tax' would be based on:<sup>[23]</sup>

- » 1 per cent of the property's up-to-date value above a £10,000 tax-free allowance, although local councils could choose a different rate;
- » which would reportedly raise a net £490 million to be invested in public services "such as childcare, education and social care";
- » to be paid and administered by property owners rather than occupants;
- » with the removal of exemptions for second homes and long-term empty homes; and

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[20] Such knock-on effects have not been included in this note's modelling but might lead to additional costs for those in higher bands and potentially cost reductions for the majority.

[21] Scottish Labour, [Labour's fairer plan to fix local government finance](#), March 2016

[22] Scottish Greens, [7 ways the Greens' tax plan will make Scotland fairer](#), March 2016

[23] Scottish Greens, [Fair funding for public services](#), March 2016

- » split valuations for land and building values (eventually allowing councils to vary tax rates for each separately).

To limit the immediate impact of these changes, they would be accompanied by:

- » a five year transition period to limit single-year tax increases/cuts;
- » a deferral scheme until death or property sale for some older households;
- » an exemption from any increases within the transition period for some households;
- » the continuation of the Council Tax Reduction system.

### Other parties' proposals

Other parties have not yet outlined their local tax plans in detail and so are not modelled in this note. However, the Scottish Liberal Democrats are also expected to also propose significant reforms to local property taxation.<sup>[24]</sup> The Scottish Conservatives have indicated that they “do think the largest properties should contribute a bit more” but that they would not increase taxes for those in Bands E and F and that for Bands G and H there would be smaller increases than the SNP have proposed.<sup>[25]</sup> The Independent Commission for Competitive and Fair Taxation in Scotland which the Scottish Conservatives set up had advised that the progressivity of the council tax band ratios should be increased, as well as suggesting that the array of council tax discounts could be rationalised with more funding targeted at households with low incomes specifically, through the Council Tax Reduction system.<sup>[26]</sup>

Clearly there is a strong degree of cross-party consensus that council tax in Scotland should be reformed. However, there is significant variation in the extent of the changes sought and the size of their potential impacts.

## Impacts of reform

### The SNP proposals would increase the proportionality of council tax

Looking first at the SNP government's proposals, the increases in council tax for Bands E-H will make the system more proportionate with respect to property values.

Where at present a property worth £1 million would pay only three times the council tax of a property worth £50,000, despite being worth 20 times more, with the planned changes the ratio would increase to almost four. Where a £140,000 Band C home might be taxed at around 0.73 per cent of its value per year at present and under the planned system, the reforms would increase the rate paid on a £300,000 Band F home from 0.55 per cent to 0.62 per cent.

Figure 5 shows the new system together with the existing system and proportionate values based on a 0.5 per cent or 1 per cent flat tax. While those in the most expensive homes would still be paying a rate of below 0.5 per cent even under the new system, their tax bill would rise by around £500 per year.

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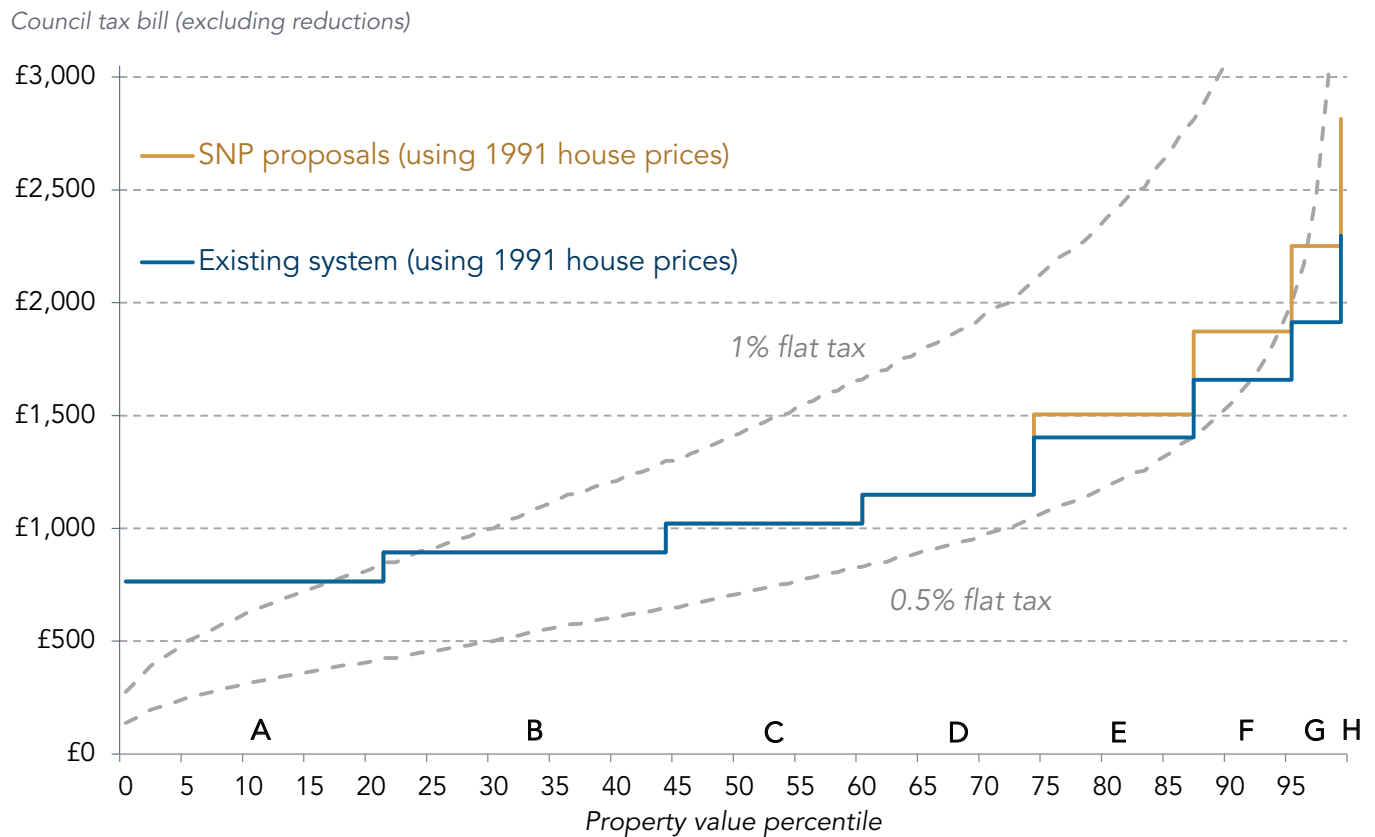
[24] BBC News, [Scottish Lib Dem conference: Delegates vote to drop local income tax policy](#), February 2016

[25] Murdo Fraser speaking in [BBC Scotland 2016 debate](#), 5 April 2016.

[26] The Independent Commission for Competitive and Fair Taxation in Scotland, [A dynamic Scotland: the role of competitive and fair taxes](#), January 2016

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Figure 5: Council tax bills (excluding reductions) under the SNP proposals



Notes: Proportions in each band based on September 2015 gov.scot data (and 1991 values); council tax levels based on average Scottish Band D rate in 2015-16; property values used for flat tax levels based on September 2015 – February 2016 Registers of Scotland data which is Crown copyright.

### The SNP's tax increase would raise revenue in a progressive manner, with the tax rise falling harder on higher income households

As set out earlier, the impact of reforms across the income distribution is also important, with Council Tax Reduction playing a key role in those considerations. Figure 5 – by looking only at the relationship with property values – excludes two key elements of the SNP proposals: the exemption from any increase for households below a typical income for their household (or £25,000 if this is lower), and the increase in Council Tax Reduction support for low income households with children.<sup>[27]</sup>

Of course, the policy as a whole is a tax increase – and we cannot model the impacts of increased education spending – so the distributional impact is largely a question of who pays what. As Figure 6 shows (in the dark red and dark purple bars), the pattern is distinctly progressive, with those in the top income deciles losing the most as a proportion of their disposable incomes on average. In cash terms, half of the revenue increase will be drawn from the top fifth. Indeed, some low income households with children will be net winners – of around £175 per year per child – due to the increase in their Council Tax Reduction.<sup>[28]</sup>

[27] In this note we assume the former exemption acts as a cliff edge, where a £1 increase in income that took a household above the median for their family type might mean a tax increase of hundreds of pounds. This would be a strong disincentive to earn more. This relief will need to be carefully designed when fleshed out.

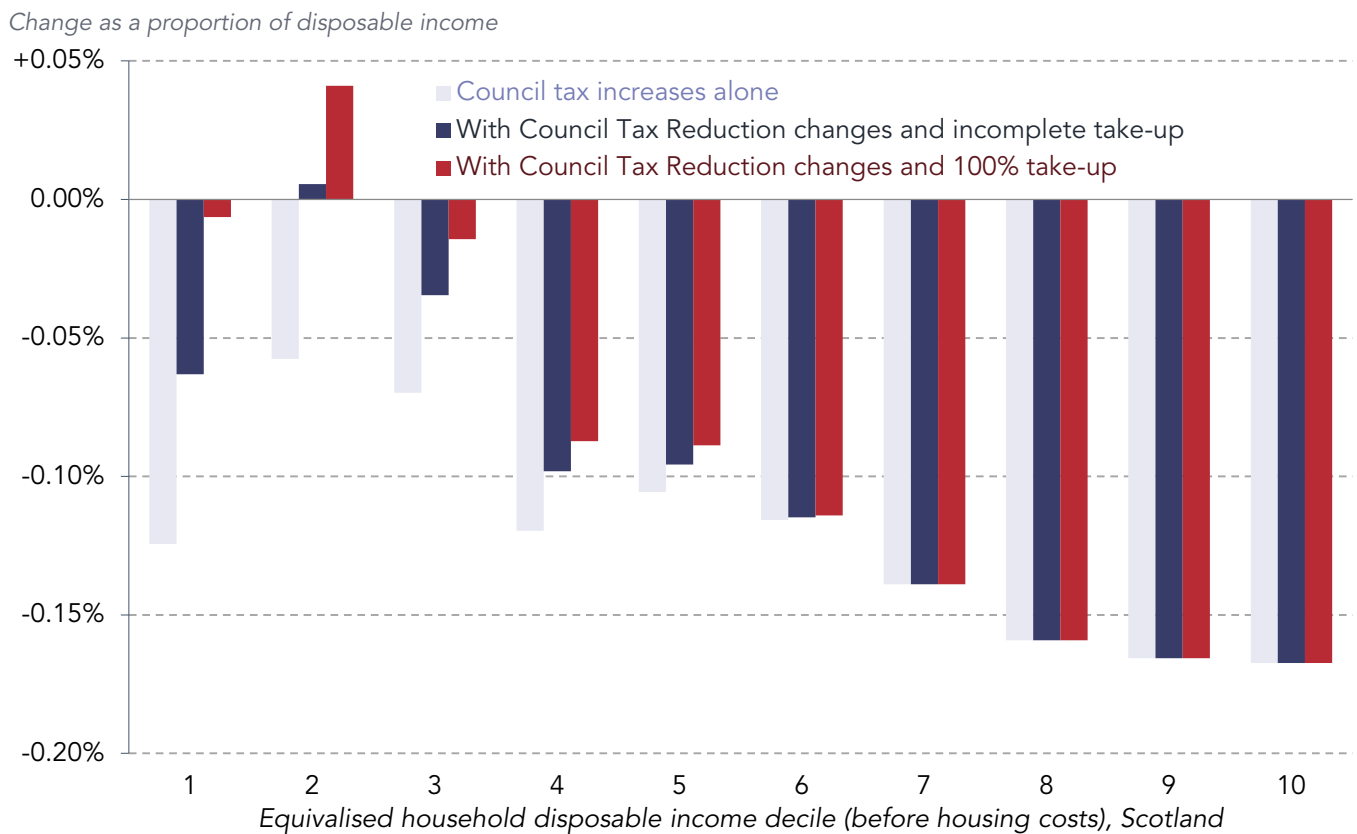
[28] The child allowance is expected to be around £67 per week. In these reforms it would be increased by 25 per cent – around £17. Given the 20 per cent taper rate, families would be over £3 per week better off per child – around £175 per year.

However, the magnitude of the *average* impacts is small because the majority of households will be unaffected by either the tax increases or the Council Tax Reduction changes. In cash terms, the highest income decile would pay only an extra £125 per household on average.

Figure 6 shows the impacts of reform under two different assumptions. The dark blue bars assume incomplete Council Tax Reduction take-up, based on official figures. These figures suggest that around 1 in 3 eligible households do not claim their entitlement and so do not benefit from the Council Tax Reduction proposals and are not cushioned against council tax increases.<sup>[29]</sup> The dark red bars, assume full take-up and with that assumption tax increases have a much reduced average impact on the lowest fifth of incomes. Higher take-up is a stated aspiration in the SNP’s proposals (at least for pensioner households) and the new exemption proposed for low income households in Band E-H homes may influence take-up. However, 100 per cent take-up should be considered indicative of the uncertainty surrounding the impacts of these reforms as well as the importance of boosting take-up, rather than as a likely outcome.

Figure 6 also shows (in light purple) the impact in the absence of the two main ameliorative proposals. Again the impact is broadly progressive, but those on low incomes would nonetheless lose out and the poorest decile – which contains people in a range of circumstances, not all of whom would be considered ‘poor’ – would see a larger loss than many as a proportion of income.

Figure 6: Impact of SNP government’s proposals on incomes in 2017-18



Source: RF analysis using IPPR tax benefit model and additional modelling

Notes: incomplete take-up of Council Tax Reduction is modelled based on historic DWP figures

[29] DWP, [Income-related benefits: estimates of take-up: financial year 2009/10](#), 2012. Estimates for Council Tax Reduction (previously Council Tax Benefit) are no longer published.

**The Labour and Green Party proposals would have more wide-ranging effects**

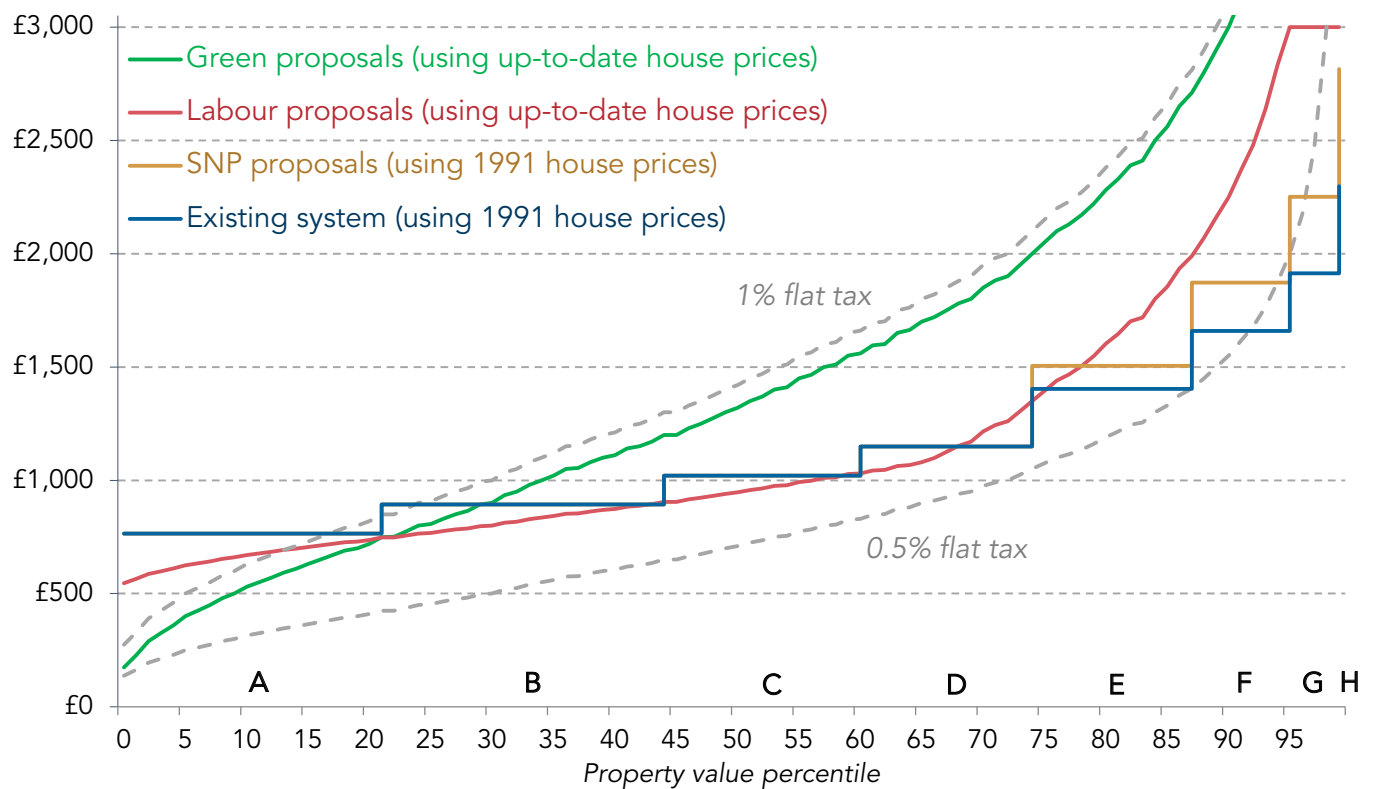
The proposals put forward by the Scottish Labour and Green parties differ significantly from each other and from the SNP proposals, though all would improve the proportionality of the domestic property tax system. Their key differences are in part a function of how much revenue is raised; how much parties are willing to increase taxes for those in the most valuable properties; and whether or not to undertake revaluation(s).

The difference in intended revenue increases – ranging from around £500 million in the case of the Green Party, to £100 million in the SNP plan, to zero for Labour’s core proposals – means that comparisons of generosity should be treated with caution. This note does not explore any benefits from additional public spending intended to flow from these plans (and nor does it look at the parties’ broader tax plans).

Nonetheless, Figure 7 explores the levels of council tax under each system in relation to the property value distribution – although noting the added complication that the existing system, in contrast to the Labour and Green proposals, does not in fact use up-to-date values.

**Figure 7: Council tax bills (excluding reductions) under different proposals**

Council tax bill (excluding reductions)



Notes: Proportions in each band based on September 2015 gov.scot data (and 1991 values); council tax levels based on average Scottish Band D rate in 2015-16; property values used for flat tax levels and Green and Labour proposals based on September 2015 – February 2016 Registers of Scotland data which is Crown copyright. The impacts of the Green Party’s transition arrangements and Labour’s 3 per cent annual increase cap are not included.

The Green Party proposal is, by design, very close to proportional, but – given the intention to raise taxes for public services – is a substantial tax increase for large numbers of households. Those in the lowest value properties would receive large tax cuts (though they may already receive some Council Tax Reduction based on their circumstances).

The Labour Party’s plan is less proportionate but would be a small tax cut for the majority of households. The £3,000 council tax cap inevitably reduces proportionality for the very highest-value properties but would still mean tax increases of over £1,000 per year for some.

Using the most recent Scottish house price data (and potentially with other differences in methodology or assumptions), the tax levels in Figure 7 suggest that both the Green and Labour plans might raise more revenue – but with fewer winners – than they have estimated.<sup>[30]</sup> Alternatively, the parties might be able to deliver the same revenue with lower rates and more winners than shown in Figure 7.

Both plans would include moving to using up-to-date property values which would be welcome, although the current SNP plan conversely has the advantage of easy implementation as soon as April 2017 and a small saving on the cost of revaluation.<sup>[31]</sup>

### Changes to property taxation may have additional economic impacts

Although harder to model (and not included in the analysis above), the possibility that changes to domestic property tax will impact on house prices should also be borne in mind.<sup>[32]</sup> One UK estimate from 1999 suggested that around one third of any increase (decrease) in future property tax liabilities feeds through to lower (higher) house prices – though this may be higher in tight housing markets such as London’s. This implied that the replacement of the property-based rates system with the poll tax “could have increased house prices by around 15 per cent and contributed substantially to house price inflation.”<sup>[33]</sup>

There is a great deal of uncertainty about how strong these effects might be, particularly in Scotland in the present day, but speculatively changes in council tax might lead to changes in the distribution of wealth (and inheritance), changes in housing affordability, and changes in rents that might dampen some of the losses and gains shown.

While the headline changes to council tax and its reduction schemes are rightly the focus of most discussion (including in this note), a number of valuable ideas have also been raised by the political parties and deserve further analysis elsewhere: including taxing vacant land, ending the second homes discount in Scotland, council tax deferral schemes, shifting tax to owners rather than tenants, encouraging take-up of Council Tax Reduction and – beyond property taxation – introducing a local allocation of income tax.

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[30] The Green Party has stated that “a majority of households in Scotland would pay less (i.e. most properties in bands A, B and some of those in C)” but this is based on 2013-14 property prices. With subsequent house price growth, together with the nominal council tax freeze, the comparison will change over time. The Labour Party has said that around 80 per cent of households would pay less tax.

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[31] The Commission referred to a cost of £7.5-8.5 million for a revaluation using discrete property values.

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[32] See for example W Oates, [The Effects of Property Taxes and Local Public Spending on Property Values: An Empirical Study of Tax Capitalization and the Tiebout Hypothesis](#), *The Journal of Political Economy*, 1969. This seminal empirical work suggested that “for an increase in property taxes unaccompanied by an increase in the output of local public services, the bulk of the rise in taxes will be capitalized in the form of reduced property values.”

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[33] L Rosenthal, [House Prices and Local Taxes in the UK](#), *Fiscal Studies*, 1999



## Conclusion

After 25 years, there is a very strong case for council tax reform in Scotland. It is therefore encouraging that the SNP, Labour, Green Party and potentially others have set out plans for change (with or without revaluation). Any of these changes would arguably amount to the most significant structural reform of council tax in Great Britain since its introduction. The policy process of an independent commission followed by a variety of party proposals ahead of an election is also commendable.

Following any Scottish reform, it is likely that England will have the least fair domestic property tax system of the four nations (not to mention other countries). And at least one Welsh party is talking of further council tax reform there. It's high time for reform in England too, be that nationally or through new devolution of powers. A system in which homes worth over a hundred times the value of others attracts only three times the tax, and in which values are based on a time before a growing proportion of the population were born<sup>[34]</sup> (and before a great many of the country's houses were built)<sup>[35]</sup>, should not last. The Celtic nations of the UK may show the way.

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[34] By 2021 – and an English council tax revaluation before then currently looks unlikely – there will be 10 million adults of voting age in the UK born after the 1991 council tax baseline, plus 14 million children and teenagers. ONS population projections.

[35] 16 per cent of England's dwellings were built in 1991 or later – English Housing Survey 2014-15

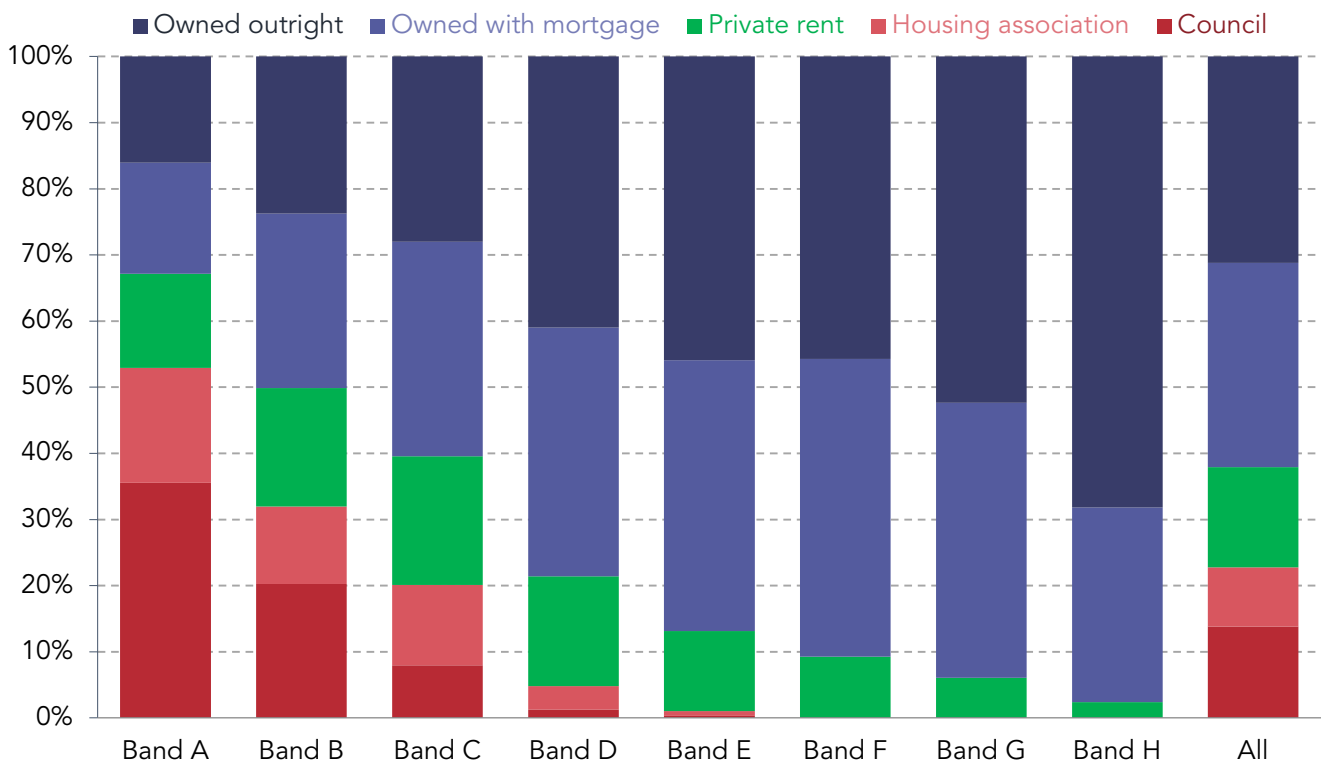
## Appendix

This appendix includes additional information on the kinds of households who live in each council tax band.

Figure 8 shows the tenure type of Scottish households in each council tax band. It shows, for example, that around half of the households in Band A are social rented properties and that there are few of these beyond Band C. Rented accommodation is more spread out across the bands, but the highest bands are dominated by owner occupied properties – and particularly those owned outright.

**Figure 8: The tenure make-up of Scottish council tax bands, 2011-14 average**

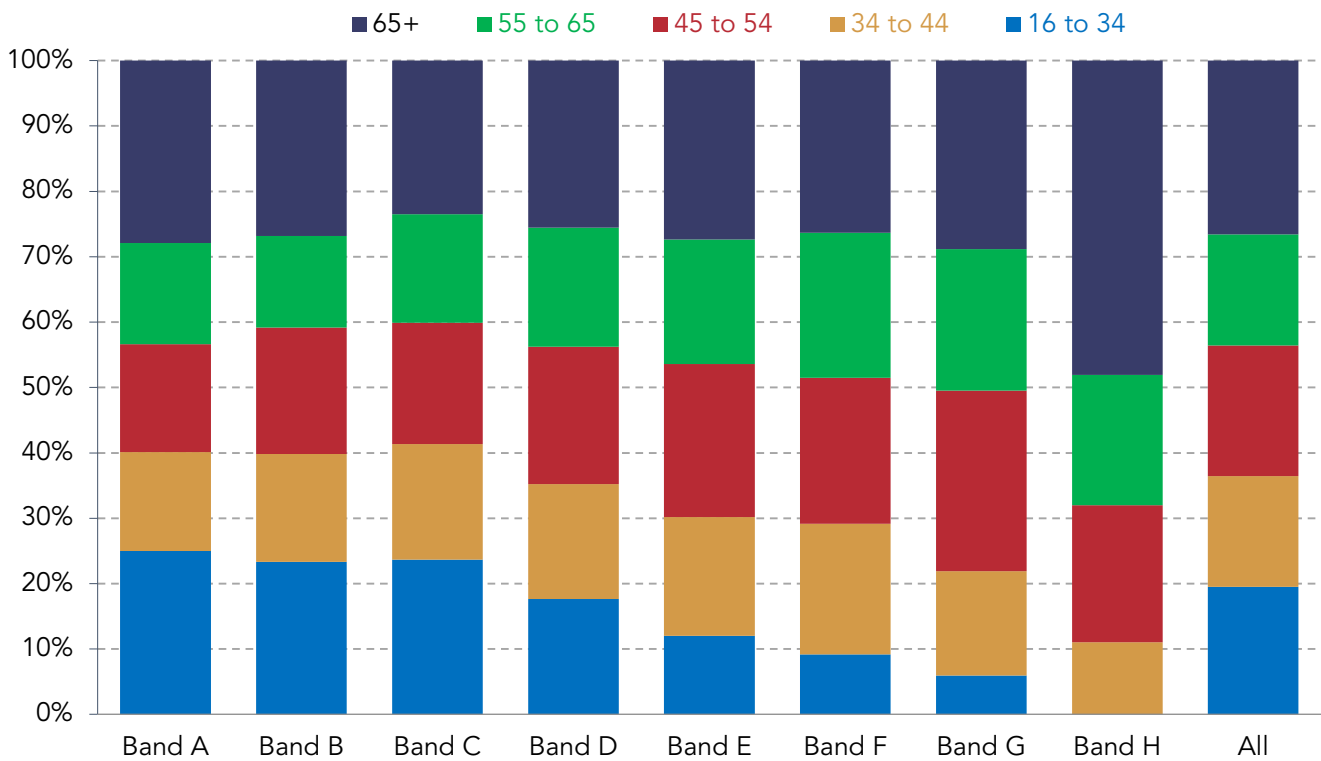
*Proportion of homes in band*



Source: RF analysis of FRS 2011-14, three year average

**Figure 9: The age make-up of Scottish council tax bands, 2011-14 average**

Proportion of homes in band by age of household reference person

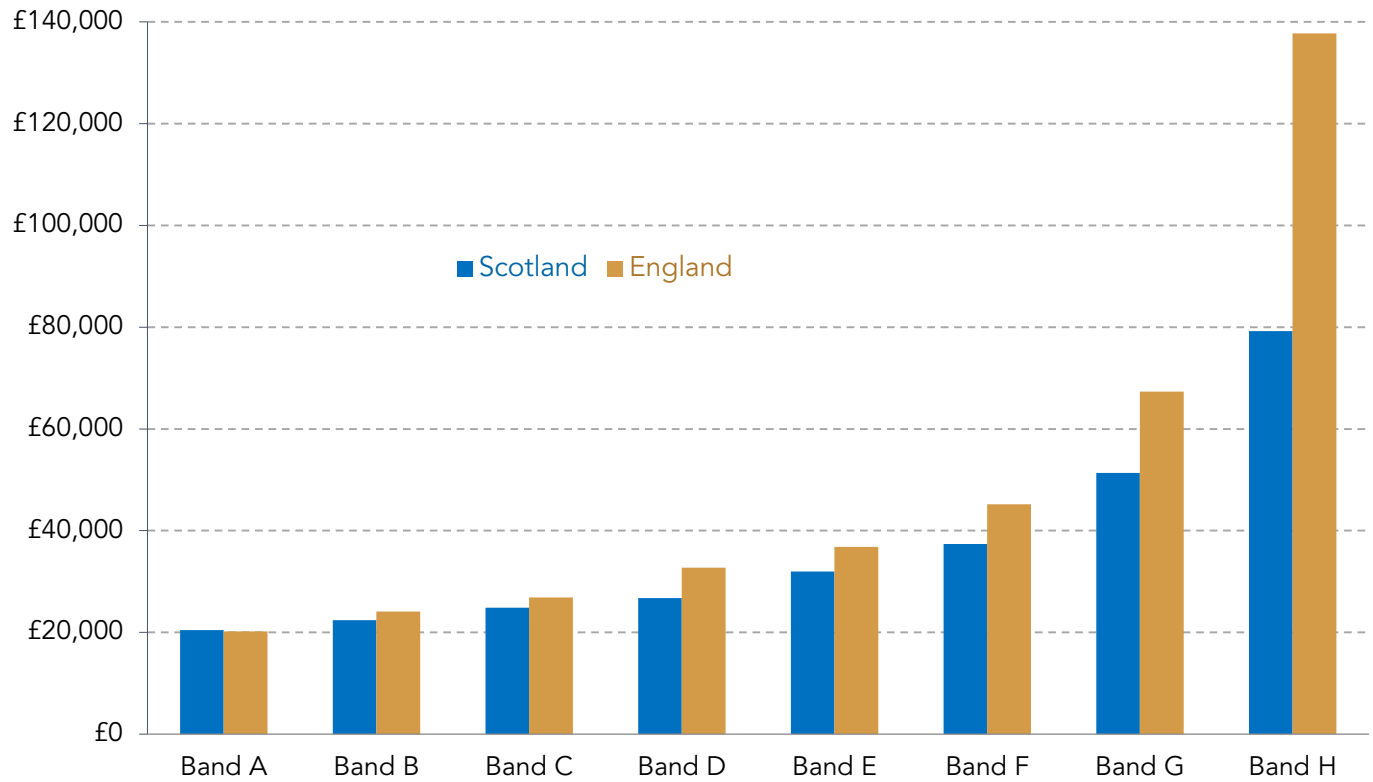


Source: RF analysis of FRS 2011-14, three year average

We can also look at which age groups live in which bands. Households headed by someone under 35 are less likely to live in the highest council tax bands. And while there aren't many Band H homes (see Figure 1), in Scotland they are disproportionately owned by the over 65s.

**Figure 10: Average disposable income of households in each council tax band, 2013-14**

*Average disposable income before housing costs*



Source: RF analysis of FRS 2013-14

Finally, Figure 10 shows the average net income (before housing costs) of households in each council tax band, for Scotland and England. There is a clear relationship between income and level of council tax, though as Figure 4 showed these averages of course obscure the fact that there are some low income households in high band and some high income households in low bands.



# Resolution Foundation

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